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A word to seniors about securities fraud

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Jim Edgar
Secretary of State
Securities
Department

Securities and the law

A "security" is an intangible thing – an investment expected to generate profits from the efforts of someone else. Many types of investments are considered securities. Some of the most common securities are stocks, bonds, notes and limited partnership interests. Other forms include fractional undivided interests in oil or gas leases, rights or royalties and so-called "investment contracts."

The Illinois Securities Law is designed to protect the investor. It provides the Securities Department with the power to seek administrative and criminal sanctions against those who violate the Securities Law. Defrauded investors may also pursue civil remedies to recover their investment. Unforunately, in many cases of fraud, there are no funds left to recover.

Securities professionals must be registered with the Securities Department of the Secretary of State's office. Records of registered securities and registered dealers, salespersons and investment advisers are available in the department's Springfield office. Although the Securities Department cannot give you legal or investment advice, the department can handle your complaints about securities fraud or improper practices by securities professionals. In the event your particular investment turns out not to be a security, we will refer your inquiry or complaint to the appropriate regulatory agency.

Understanding risk

All investments contain elements of **risk**. Three risks should be of most significant concern to the average investor:

- The risk that the venture might not be as successful as hoped and therefore not generate the expected profit, or any profit for that matter (*an investment risk*).
- The risk that the venture might not succeed at all, so that part or all of the investor's initial investment would be lost (*also an investment risk*).
- The risk that the investor might be defrauded (*the risk of fraud*).

As an investor, you must recognize the extent of your own ability to afford investment risk. A retired person living on a fixed or limited income may not be able to afford losing even a small portion of his or her savings, while a young, single professional may be able to speculate to some extent.

It is important to understand that the higher the rate of return, the greater the risk. That higher return is the investor's compensation for bearing the greater risk. No matter what, unless you are investing in notes or bonds issued by the United States Treasury, you always should be able to afford losing the whole sum invested.

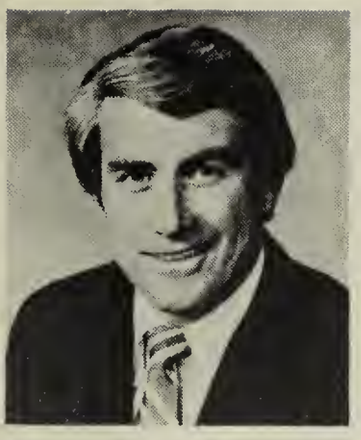
Investors can help guard against the third risk, risk of fraud, by exercising caution and educating themselves about the venture and its promotors before turning over their money. The "Investor Tips" on the next page are a start in the right direction.

Investor tips

Keep the following points in mind before you invest:

- Obtain and review a written proposal or prospectus on the venture and the company, including financial statements, if available.
- Consult an accountant, attorney or other knowledgeable person whom you trust if you have questions or do not understand the deal.
- For tax shelter deals, ask the promotor for a written legal opinion as to the tax consequences of the venture.
- Contact the Illinois Securities Department to find out whether the company and the promoter have obtained all proper licenses or have any history of problems with authorities. If you can, check out the promoter, dealer or salesperson with friends who invest.
- Find out how long a company has been in business and check on the principals, officers and directors. Call your local Better Business Bureau for a reliability report on the company.
- Avoid promoters using random telephone calls, high pressure tactics or messenger services which pick up money from investors. Be wary of salespeople who urge "immediate action."
- Never mail payment by certified check, give credit card numbers over the phone or send payment via a messenger service arranged by the promoter.
- Beware of "pyramid schemes," in which recruitment of new members is more important than the product being distributed. Those in the scheme early may profit; those in late always lose.

Whenever in doubt, wait until you can consult all available resources. Make sure **you** are comfortable with the investment before you commit yourself to it.



Protect Yourself From Fraud

Securities fraud threatens people of all ages and incomes and from all walks of life. However, disreputable and unscrupulous promotors prey most often on senior citizens – those who can least afford to lose an investment.

Please take a moment to read this brochure about investments and how the Securities Department of my office may be able to help you. If you are considering a securities investment, we may be able to provide you with information to assist you in making a decision. If you have been defrauded in a securities venture, we can revoke licenses of securities professionals or seek other disciplinary remedies and, in some cases, criminal penalties.

Before you commit to any investment, remember that some well-placed questions, a basic knowledge of your rights and a dose of common sense may save time, money and frustration. If you have any questions, please contact my office.

Jim Edgar

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